



Department of Transportation

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September 24, 2004

Dear Consultant:

Subject: Audited Overhead Rates

You may be aware that the Department of Transportation is taking steps to streamline our consultant management processes. This effort began about two years ago with a series of interviews with our consultants conducted by Georgia Tech. Our goal in this effort has been to create an efficient and transparent process that is standardized across all of our offices. The reengineering effort has addressed all phases of the process, from advertisement to contract closeout. Most of the change will be to our internal business processes. Some of the change will have an effect on our interactions with consultants.

One of the changes which will require a different kind of response from consultants pertains to the method of obtaining audited overhead rates or indirect cost rates. Historically, the Department's Office of Audits has been providing this audit service to those consultants for which Georgia is the cognizant state. The cognizant state is defined as, "any Federal or State agency that has conducted and issued an audit report of the consultant's indirect cost rate that has been developed in accordance with the requirements of the cost principles contained in 48 CFR part 31." (23 CFR 172.3).

To achieve a higher level of process efficiency in the audits function, we are requiring that Georgia based consultants with \$250,000 or more in contracts with the Department obtain an audited overhead or indirect cost rate by a Certified Public Accountant (CPA). The audit must also be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the "Uniform Audit & Accounting Guide (AASHTO) with Georgia Department of Transportation – Supplement – (Audit Prices and Cost Principles), Revised 01/02"; located on-line at (<http://www.dot.state.ga.us/dot/audits/documents/pdg/auditguide.pdf>).

More specifically, any Georgia based consultant who has or reaches a total amount of \$250,000 or more in contracts on or after January 1, 2004 will be required to obtain an audited overhead or indirect cost rate by a Certified Public Accountant (CPA) for each year the consultant has contracts with the Department beginning with the consultants 2005 fiscal year end close. The CPA overhead audit shall be received by the Office of Audits within the 6-month period following the consultant's fiscal year end close. If the CPA overhead audit will not be available by the deadline, the Office of Audits shall be notified of the delay and an anticipated receipt date. The Office of Audits will continue to participate in the process by performing a review of the CPA's workpapers upon receipt of the overhead report. For those consultants which Georgia is not the cognizant state, a cognizant audit should be submitted if the consultant has or reaches a total amount of \$250,000 or more in contracts on or after January 1, 2004.

I want to emphasize that these changes are being implemented with the goal of improving the efficiency of our audit functions and ultimately our consultant procurement and contract management processes. Overhead rates established by a cognizant agency audit in accordance with 48 CFR part 31 will be used as the provisional overhead rate during the contract negotiation process and as final overhead rates during the contract closeout process.

If you have any questions concerning these requirements, please contact the Office of Audits at 404-656-5247.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul V. Mullins", written in a cursive style.

Paul V. Mullins, P.E.
Chief Engineer

PVM:BAS

cc: GDOT Executive Management